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CANADIAN OBAS  
OIL LIMITED

## FIRST ANNUAL REPORT 1973





CANADIAN OBAS OIL LIMITED

# FIRST ANNUAL REPORT 1973

## EXECUTIVE OFFICES

1020 Aquitaine Tower  
530 - 5th Avenue S.W.  
Calgary, Alberta

## OFFICERS

Joseph Sabo, President  
Robert Glendon Smith,  
Secretary-Treasurer

## DIRECTORS

Joseph Sabo  
Robert Glendon Smith  
Frederick Taylor Cousins  
Donald Joseph Quinn

## TRANSFER AGENT AND REGISTRAR

Montreal Trust Co.  
411 - 8th Avenue S.W.  
Calgary, Alberta

## BANKERS

Bank of Montreal  
Seventh Avenue West Branch  
318 - 7th Avenue S.W.  
Calgary, Alberta

## SOLICITORS

V. M. Naimish  
280 Elveden House  
Calgary, Alberta

## AUDITORS

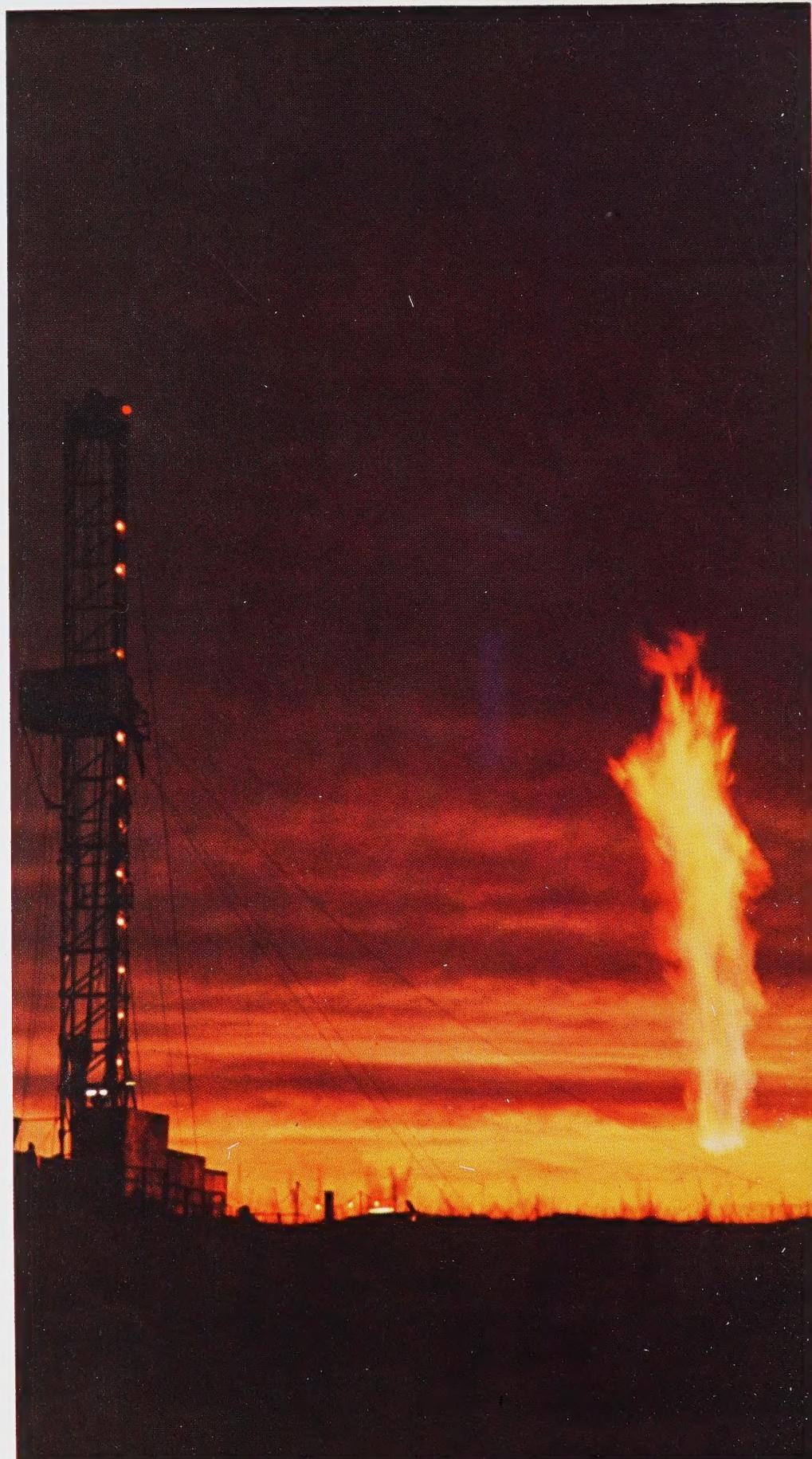
Arthur Andersen & Co.  
7th Floor  
335 - 8th Avenue S.W.  
Calgary, Alberta

## CAPITALIZATION

Authorized 5,000,000  
No par value  
Issued 1,336,611

## STOCK EXCHANGE LISTING

Calgary Stock Exchange  
Calgary, Alberta  
Symbol "CIB"



# To The Shareholders

On behalf of the Board of Directors I am pleased to present Canadian Obas Oil Limited first annual report and audited financial statements for the year ended May 31, 1973. The Company's operations during the first year as a public company resulted in progress in a number of areas. The initial public offering of stock on a best efforts basis realized the Company \$59,914.

Canadian Obas Oil Limited shares were called for trading November 22, 1972 on the Calgary Stock Exchange.

On May 30, 1973 a convertible note was issued to a group of investors for \$250,000. The note carries no interest and no repayment clause, but must be converted into treasury shares of Canadian Obas Oil Limited by September 1, 1974. The conversion price is \$.40 or \$.60 per share (625,000 shares @ \$.40 or 416,667 shares @ \$.60) and depends on the existing gas price contract. If the present contract exceeds \$.20 by July 1, 1974 the investors must convert at \$.60 a share, however if the contract price does not exceed \$.20 they will convert at \$.40 a share.

The financial condition of the Company has improved from a deficit working capital of \$120,805 in 1972 to a positive working capital of \$209,713 as of May 31, 1973.

Canadian Obas Oil Limited participated in the drilling of two wells in 1972. The first well was a 3,100 foot Basal Quartz well in the Thompson Lake area of east central Alberta. This well was a dry hole. The second well was a shallow 1,700 foot test well located in the Brooks, Alberta area and resulted in the discovery of commercial gas in two zones. The first zone the Milk River formation encountered 36 feet of net gas pay, the second zone the Medicine Hat formation penetrated 34 feet of net gas pay.

Drill Stem Tests indicated commercial quantities of natural gas with no recovery of formation water.

The production revenue after royalties in the Verger field was \$7,357 up from \$6,850 in 1972. The wells have been shutin due to mechanical problems. Operators of the field were to have reworked two oil wells and put in a water disposal well, however circumstances delayed these operations. The Company hopes to rectify our field operation in the Verger area in early 1974.

## SUBSEQUENT EVENTS

Canadian Obas was successful in negotiating a 10% participation in 155,375 acres, four permits in eastern Sicily (on land). Seismic has been completed and interpretation should be ready around the middle of October 1973. The Company estimates that the 10% working interest will cost approximately \$13,000.

Canadian Obas Oil Limited has committed to Ashland to drill a 2,500 foot Mississippian test in eastern Alberta, however as yet Ashland has not accepted the offered terms.

Canadian Obas Oil Limited has increased its proven gas reserves by 17,323,000 MCF in 1973. Total reserves for the company are as follows;

Previous Proven Gas 1972 .....	5,024,000 MCF
Additional Proven Gas 1973 .....	<u>17,323,000 MCF</u>
Total Proven Gas Reserves .....	<u>22,323,000 MCF</u>
Total Proven Oil Reserves .....	<u>197,330 bbls</u>

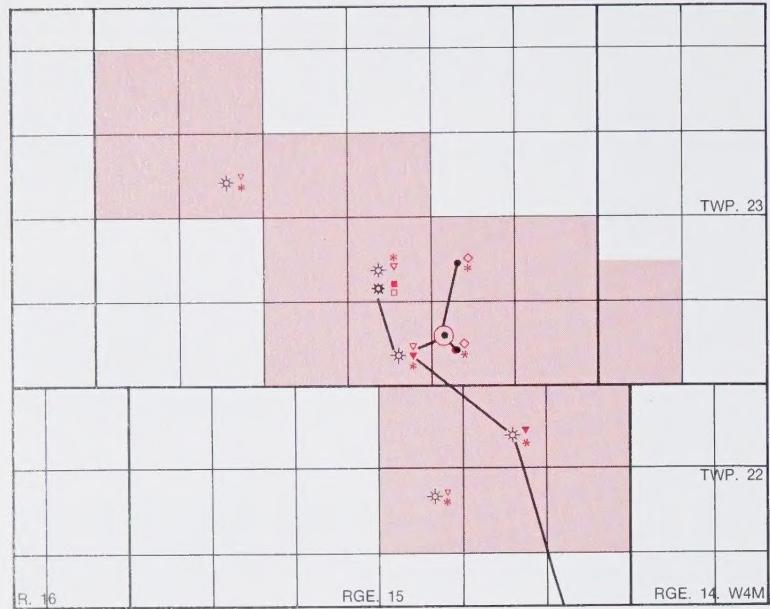
All reserves shown above have been calculated by certified professional engineers. These reserves are not reflected in the financial statements.

Respectfully submitted  
On Behalf of The Board of Directors

JOSEPH SABO  
President

September 15, 1973  
Calgary Alberta, Canada

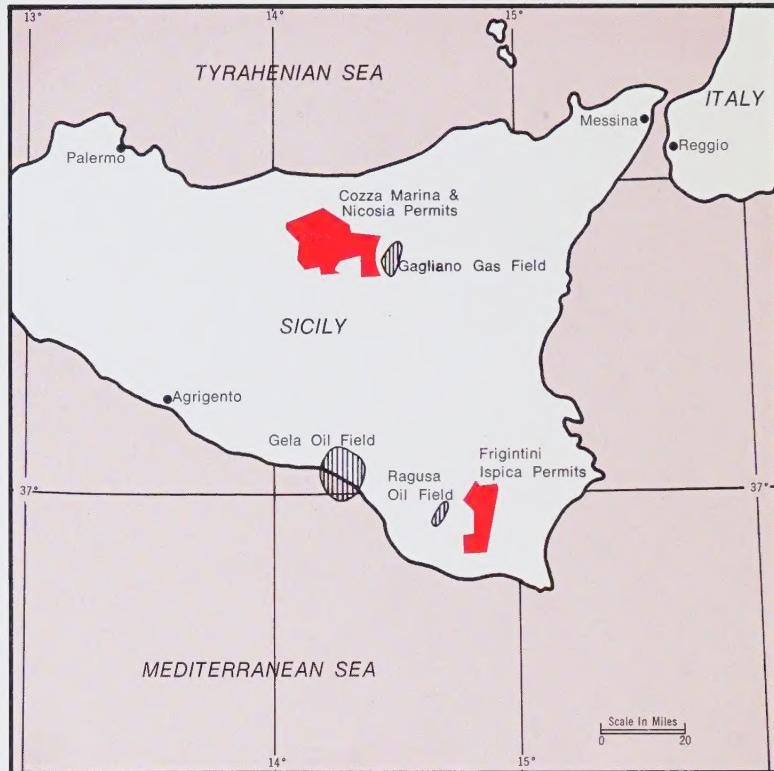
# Oil & Gas Properties



## VERGER, ALBERTA

- CANADIAN OBAS ACREAGE
- ▼ Ellerslie Gas Wells
- ▼ Basal Colorado Gas Wells
- Milk River Gas Wells
- Medicine Hat Gas Wells
- \* Potential Milk River & Medicine Hat Gas Wells
- ◊ Ellerslie Oil Wells
- ◎ Proposed Water Disposal Well

0 1 2 3  
Scale In Miles



## SICILY - EUROPE

- COMPANY INTEREST PERMITS
- Oil & Gas Fields

## VERGER AREA

Canadian Obas has a 23.75% working interest in 12,640 acres in the Verger area in southeastern Alberta. These properties contain 2 oil wells, 5 gas wells (1 dual). Production is from Basal Colorado formation and the Mannville D Pool. One well was drilled in 1973 and encountered commercial gas from the Milk River and Medicine Hat formations.

## SUBSEQUENT EVENT — SICILY

Canadian Obas Oil Limited owns 10% working interest in 155,375 acres four permits in the eastern portion of Sicily (on land). These permits are known as FRIGINTINI, ISPICA, SPERLINGA (NICOSIA) and COZZA MARINA. Seismic work has recently been completed with interpretation available approximately the middle of October 1973.

The FRIGINTINI Permit is located approximately 4 miles east of the producing RAGUSA Oil Field. Estimated recoverable reserves in the RAGUSA Oil Field are 110 million barrels with oil pays as thick as 1,300 feet. The permit is also in close proximity to the GELA Oil Field where estimated recoverable reserves are 240 million barrels and oil pays are as thick as 1,250 feet. Geologists believe that there exists a reasonable possibility for additional structure of this magnitude on the permits.

The Oakwood group of which COOL is a 10% partner will have the right to elect after seismic to drill a well on the FRIGINTINI or ISPICA permit. This well could earn the group a possible 62% working interest in two permits and options on the remaining two permits SPERLINGA (NICOSIA) and the COZZA MARINA. The first well will also earn the group a 10% working interest in 27,244 acre MONANO permit located on shore Italy. This permit is near the Adriatic Port City of Ancona and is surrounded by the gas producingIESI and SEIGALLIA concessions.



# Statements Of Changes In Financial Position

For the Years Ended May 31, 1973 and 1972

SOURCE:	1973	1972
Rights issue	\$ 250,000	\$ —
Share issue, net	59,914	—
Reclassification of portion of production bank loan from current to long-term debt (Note 3)	76,104	—
	<hr/>	<hr/>
	\$ 386,018	\$ —
DISPOSITION:		
Operating loss	\$ 42,514	\$ 8,196
Add (deduct) charges which require no current expenditure of working capital -		
Depletion and depreciation	(3,843)	(2,888)
Other	124	548
	<hr/>	<hr/>
Additions to oil and gas properties	\$ 38,795	\$ 5,856
Additions to equipment, net	13,185	76,238
Repayment of bank production loan	—	6,327
Other	5,243	—
	<hr/>	<hr/>
(1,723)	(1,723)	10,133
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 55,500	\$ 98,554
	<hr/>	<hr/>
	\$ 330,518	\$ (98,554)
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL:		
Receivable on share purchase rights	\$ 250,000	\$ —
Bank production loan	83,322	(74,672)
Accounts payable	(1,425)	(14,081)
Other	(1,379)	(9,801)
	<hr/>	<hr/>
WORKING CAPITAL (DEFICIENCY), END OF YEAR	\$ 330,518	\$ (98,554)
	<hr/>	<hr/>
	\$ 209,713	\$ (120,805)

The accompanying notes are an integral part of these statements



# Balance Sheets

May 31, 1973 and 1972

**ASSETS****CURRENT ASSETS:**

Cash	\$ 4,873
Accounts receivable	2,450
Advance to shareholder	—
Receivable on share purchase rights	250,000
Other	2,687
Total current assets	<u>\$ 260,010</u>

	<b>1973</b>	<b>1972</b>
	\$ —	\$ —
	1,190	7,655
	—	—
	250,000	1,955
	2,687	
	<u>\$ 260,010</u>	<u>\$ 10,800</u>

OIL AND GAS PROPERTIES, at cost, less accumulated depletion and depreciation of \$3,578 in 1973 and \$1,979 in 1972  
(Notes 1 and 3)

\$ 187,374	\$ 175,788
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EQUIPMENT, at cost, less accumulated depreciation of \$6,499 in 1973 and \$4,255 in 1972

\$ 5,355	\$ 7,599
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**OTHER ASSETS, at cost:**

Goodwill	\$ 10,000	\$ 10,000
Other	382	615
Deferred financing costs	—	3,750
	<u>\$ 10,382</u>	<u>\$ 14,365</u>

\$ 463,121	\$ 208,552
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Approved by the Board:

Robert Glendon Smith, Director

Joseph Sabo, Director

## LIABILITIES

### CURRENT LIABILITIES:

	1973	1972
Bank overdraft	\$ —	\$ 689
Bank production loan instalments scheduled within one year (Note 3)	16,350	23,568
Accounts payable	27,669	26,244
Current portion of advance from Consolidated Natural Gas Limited (Note 4)	5,000	5,000
Payable to shareholder	1,278	—
 Total current liabilities excluding 1972 bank loan instalments scheduled after one year	 \$ 50,297	 \$ 55,501
1972 Bank production loan instalments scheduled after one year (Note 3)	—	76,104
 Total current liabilities	 \$ 50,297	 \$ 131,605
 BANK PRODUCTION LOAN, net of current portion (Note 3)	 \$ 70,861	 \$ —
 ADVANCE FROM CONSOLIDATED NATURAL GAS LIMITED, net of current portion (Note 4)	 \$ 37,930	 \$ 39,957
 SHAREHOLDERS' EQUITY:		
Common shares, no par value; authorized 5,000,000 shares	\$ 60,014	\$ 100
Share purchase rights (Note 2)	250,000	—
Retained earnings (deficit)	(5,981)	36,890
 \$ 304,033	 \$ 36,990	
 \$ 463,121	 \$ 208,552	

The accompanying notes are an integral part of these balance sheets



CANADIAN OBAS OIL LIMITED

# Statements Of Shareholders' Equity

For the Years Ended May 31, 1973 and 1972

	Common Shares (Note 2)		Share Purchase Rights (Note 2)	Retained Earnings (Deficit)
	Shares	Amount		
Balance, May 31, 1971	100	\$ 100	\$ —	\$ 44,120
Stock split, effective February 8, 1972	999,900	—	—	—
Loss	—	—	—	7,230
Balance, May 31, 1972	1,000,000	\$ 100	\$ —	\$ 36,890
Shares issued -				
Proceeds	336,610	84,153	—	—
Commissions	—	(13,358)	—	—
Professional fees relating to shares issued	—	(10,881)	—	—
Share purchase rights (Note 2)	—	—	250,000	—
Loss	—	—	—	42,871
Balance, May 31, 1973	<u>1,336,610</u>	<u>\$ 60,014</u>	<u>\$ 250,000</u>	<u>\$ (5,981)</u>

The accompanying notes are an integral part of these statements



# *Statements Of Loss*

For the Years Ended May 31, 1973 and 1972

**REVENUES:**

Sales of natural gas (Note 1)  
Gain on sale of oil and gas rights

	<b>1973</b>	<b>1972</b>
\$ 7,357	\$ 6,850	
—	3,000	
<hr/>	<hr/>	<hr/>
\$ 7,357	\$ 9,850	

**EXPENSES:**

Lease operating  
Management salaries (Note 6)  
Interest  
Depletion and depreciation (Note 1)  
General and administrative

\$ 8,445	\$ 3,410	
14,400	3,656	
7,107	3,819	
3,843	2,888	
16,076	4,273	
<hr/>	<hr/>	<hr/>
\$ 49,871	\$ 18,046	
<hr/>	<hr/>	<hr/>
\$ 42,514	\$ 8,196	

**OTHER (INCOME) EXPENSE:**

Gain on sale of equipment  
Loss on sale of marketable securities  
Loss (Note 5)

\$ —	\$ (1,757)	
357	791	
<hr/>	<hr/>	<hr/>
\$ 42,871	\$ 7,230	

The accompanying notes are an integral part of these statements

# *Auditors' Report*

To the Shareholders of

Canadian Obas Oil Limited:

We have examined the balance sheet of Canadian Obas Oil Limited (an Alberta corporation) as of May 31, 1973 and 1972, and the related statements of shareholders' equity, loss and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Canadian Obas Oil Limited as of May 31, 1973 and 1972, and the results of its operations, and changes in financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied during the periods.

Calgary, Alberta,  
August 3, 1973.

ARTHUR ANDERSEN & CO.  
Chartered Accountants



# Notes To Financial Statements

May 31, 1973 and 1972

## 1. OIL AND GAS PROPERTIES

In prior years the costs of all successful exploration and development of oil, gas and related reserves were capitalized on a prospect-by-prospect basis, including a portion of management salaries, interest and general and administrative expenses during the pre-production period of the company.

In 1973, the company adopted the full cost method of accounting for such costs. In 1972 and 1973 there were no significant unsuccessful prospects and, as a consequence, the financial results are substantially identical under either method of accounting.

The full cost method capitalizes all costs of acquiring, exploring for and developing oil and gas reserves, including pre-production expenses and costs of non-producing properties. Provision for depletion is computed on the unit-of-production method based on the estimated developed proven recoverable oil and gas reserves.

All the producing wells have been shut in since December, 1972.

## 2. STOCK OPTIONS AND SHARE PURCHASE RIGHTS

Share purchase rights were issued in the form of a convertible note on May 30, 1973. They must be converted into common shares by September 1, 1974 at \$ .40 or \$ .60 per share (625,000 shares or 416,667 shares); the price dependent upon certain gas prices and gas marketing renegotiations.

Stock options on 35,000 shares have been granted to directors, exercisable at 1/3 per annum over a 3 year period. The options prices are \$.33, \$.38 and \$.43 per share respectively in each of the three years. The options are cumulative, at the price existing during the year of exercise. The options have not been ratified by the shareholders.

Shares have been reserved to be issued on conversion of the purchase rights or exercise of the options.

## 3. BANK PRODUCTION LOAN

The bank production loan is evidenced by a demand note and is secured by assignment of the oil and gas reserves underlying the company's properties. Payments are scheduled at \$1964 per month (interest included) beginning in August, 1973, and increasing to \$2271 per month (interest included) beginning in January, 1974. Interest is at 3/4% above prime.

Payments scheduled after May 31, 1974 were reclassified as long-term debt, upon the advice of the bank that they will not demand repayment as long as the company is not in default of its obligations.

## 4. ADVANCE FROM CONSOLIDATED NATURAL GAS LIMITED

The advance is repayable out of 1/3 of the working interest owners' share of gas production. Consolidated has the right to increase the recovery rate to 50% of production per year if the advance will not be repaid within five years. If the advance is not totally repaid at the end of ten years from the date of commencement of production (November 1, 1971), the remainder will become due and payable at that time.

## 5. EARNINGS PER SHARE

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Loss per share is \$.033 in 1973 and \$.0072 in 1972.

## 6. DIRECTORS AND OFFICERS REMUNERATION

	<u>1973</u>	<u>1972</u>
Directors —		
Number	4	3
Remuneration	\$ -	\$ 408
Officers —		
Number	2	2
Remuneration	\$14,400	\$10,489

A portion of the remuneration of the directors and officers was capitalized during the year ended May 31, 1972.

The Company's shares were sold on a best efforts basis. The sales commission paid to the President was approximately \$700; to a brokerage house \$6,000; and the remaining \$6,600 was returned to the investors in the form of additional shares.

## *Annual Meeting*

The Annual Meeting of Shareholders of Canadian Obas Oil Limited will be held in the Board Room of Montreal Trust Co., 411 - 8th Avenue S.W., Calgary, Alberta, at 10:00 A.M. on Wednesday, October 31, 1973.

Formal notice of this meeting and Proxy material are enclosed.



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